

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 8099

BILL NUMBER: SB 562

DATE PREPARED: Feb 27, 2001

BILL AMENDED: Feb 26, 2001

SUBJECT: Venture capital investments.

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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State

Summary of Legislation: (Amended) This bill establishes the Indiana Venture Capital Fund and authorizes the Public Employees' Retirement Fund and the Teachers' Retirement Fund to invest in the Indiana Venture Capital Fund. It also authorizes the Indiana Venture Capital Fund to sell contingent tax credits to public utilities to obtain capital to be used to invest in new high technology ventures in Indiana and to invest in local certified equity pools and other investment groups. The bill further requires each one dollar of investment from the Indiana Venture Capital Fund to be matched by two dollars of private investment.

This bill also establishes the Indiana Investment Company and requires the Public Employees' Retirement Fund (PERF) and the Indiana State Teachers' Retirement Fund (TRF) to use the Indiana Investment Company as the funds' exclusive agent for the management and investment of the funds' assets allocated to private capital investments. The bill permits the Indiana Venture Capital Fund to employ alternative private capital investment advisors under certain circumstances.

Effective Date: January 1, 2002.

Explanation of State Expenditures: (Revised) *Indiana Investment Company:* This bill establishes the Indiana Investment Company *not* as a state agency, but as an independent body corporate and politic. The Company would be the exclusive agent for the management and investment of PERF and TRF's assets allocated to private capital. The allocation of PERF and TRF's assets to private capital and the investment decisions concerning those allocations would remain the responsibility of PERF and TRF's governing boards. These decisions would not be the responsibility of the Company.

The Company consists of nine members: the Lieutenant Governor and the Treasurer (or their designees); the presidents of PERF and TRF's boards of trustees; and five appointees with relevant experience selected by the Governor. The Company is authorized to adopt rules, take administrative actions, hire employees, and perform other necessary functions. In addition, the Company must submit an annual report to the Pension

Management Oversight Committee before September 1 of each year.

Indiana Venture Capital Fund: This bill establishes the Indiana Venture Capital Fund *not* as a state agency, but as an independent body corporate and politic. Assets of the Fund consist of: (1) Capital obtained from the pledge of contingent tax credits by public utilities (see “Explanation of State Revenues”); and (2) money invested in the Fund by PERF and TRF. In the event that PERF or TRF elects to invest assets in alternative investment vehicles, the bill requires that at least 10% of that investment be in the Indiana Venture Capital Fund. The Fund would be governed by a nine-member board comprised of the Lieutenant Governor and the Treasurer (or their designees) and seven appointees selected by the Governor. The Fund is authorized to adopt rules, charge fees, take administrative actions, hire employees, and perform other necessary functions. The Fund is directed to solicit proposals from qualified investor groups for investment of capital in qualified Indiana businesses (see paragraph below). A single investment in a qualified Indiana business may not exceed 10% of the total assets of the Indiana Venture Capital Fund. In addition, each \$1 invested must be matched by \$2 of private investment.

Qualified Indiana businesses are defined as high growth, high skill ventures headquartered in Indiana. These businesses must be independently owned and operated and must employ 70% of employees within the state (95% of which must be Indiana residents). A qualified business must also be a seed, start-up, or other early stage enterprise in need of venture capital and may not be involved in certain sectors, including real estate, insurance, professional services, and others outlined in the bill.

Explanation of State Revenues: *Contingent Public Utility Tax Credit:* This bill authorizes the Indiana Venture Capital Fund to sell, on a dollar for dollar basis, tax credits to public utilities to obtain capital for the funding of investments. The credits may be taken against a utility’s liability under the Gross Income Tax, the Corporate Adjusted Gross Income (AGI) Tax, and the Supplemental Net Income Tax. Utilities must pledge to purchase the credits before January 1, 2004. The aggregate amount of credits allowed under this bill is \$50 M, although only \$10 M may be allowed in a given calendar year.

The amount of certified credits may not exceed a taxpayer’s liability in a given year. Any excess may be carried forward for up to ten years. The bill does not provide for any refunds or carrying back of these credits. Revenue from the taxes against which these credits may be taken is deposited in the state General Fund and the Property Tax Replacement Fund. As this bill is effective January 1, 2002, the impact of any tax credits sold in the first year would begin in FY 2003 and would reduce state revenue by up to \$10 M.

Indiana Investment Company and Indiana Venture Capital Fund: The revenues which could be generated through this new investment structure are indeterminable at this time.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Public Employees' Retirement Fund, Teachers' Retirement Fund.

Local Agencies Affected:

Information Sources: